S. HRG. 98-178

S. 628, LEGISLATION DEALING WITH FARMERS' ELIGIBILITY IN THE SBA DISASTER PROGRAM

HEARING

BEFORE THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 628

LEGISLATION DEALING WITH FARMERS' ELIGIBILITY IN THE SBA DISASTER PROGRAM

JUNE 8, 1983

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S. 628, LEGISLATION DEALING WITH FARMERS' ELIGIBILITY IN THE SBA DISASTER PROGRAM

WEDNESDAY, JUNE 8, 1983

U.S. SENATE,
COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The committee met, pursuant to notice, at 9:34 a.m., in room SR432, Russell Senate Office Building, Senator Lowell Weicker, Jr. (chairman of the committee) presiding.

Present: Senators Weicker and Pressler.

Staff present: Robert J. Dotchin, staff director; R. Michael Haynes, chief counsel; John McNamara, professional staff member; Alan L. Chvotkin, minority chief counsel; and Dorothy C. Olson, hearing clerk.

STATEMENT OF HON. LOWELL WEICKER, JR., A U.S. SENATOR FROM THE STATE OF CONNECTICUT AND CHAIRMAN OF THE COMMITTEE ON SMALL BUSINESS

The CHAIRMAN. Today the committee is holding a hearing on S. 628, legislation that would make permanent the reforms adopted by Congress in Public Law 96-302, which substantially removed SBA from agricultural disaster lending and placed this responsibility once again primarily with the Farmers Home Administration. These provisions are due to expire on October 1, 1983. Unless S. 628 is enacted into law, the floodgates which opened up SBA to making farm disaster loans will be reopened, and SBA will be thrust headlong back into a program where it did not belong in the first place.

The Department of Agriculture has the necessary programs, budget, and expertise to assist the farm community in farm disaster lending; SBA does not. S. 628 will simply insure that the past reforms instituted by Congress will be maintained.

In addition, the failure to adopt S. 628 would have severe budget implications. The Congressional Budget Office estimates that failure to act on this bill would result in a $489 million increase in the SBA disaster program level in fiscal year 1984 alone, and would increase the disaster loan program by at least that amount in each succeeding fiscal year. During times of severe budget restraints, the Government can ill afford such unwarranted increases.

The Senate, in Senate Concurrent Resolution 27, adopted a reconciliation instruction directing the Small Business Committee to take action to achieve substantial savings in budget authority and outlays in fiscal years 1984, 1985, and 1986. This reconciliation was

based on the Congressional Budget Office baseline that "farmers were in" the SBA disaster loan program because of the automatic expiration of the 1980 amendments at the end of fiscal year 1983. If the reconciliation instruction as passed the Senate is adopted by Congress, the savings mandated can, in my judgment, only be achieved by the committee's adoption of S. 628.

Therefore, I intend either to proceed expeditiously with a markup of this legislation and report it out of committee or offer this bill as an amendment to S. 1323, the SBA authorization bill, when it is considered by the full Senate.

We have as our first witness the Administrator of SBA.

It is good to have you here, Jim. Why don't you proceed with your testimony? It will be included in full in the record. You may synopsize, if you wish. Go right ahead.

STATEMENT OF HON. JAMES C. SANDERS, ADMINISTRATOR, SMALL BUSINESS ADMINISTRATION, WASHINGTON, D.C., ACCOMPANIED BY EDWIN T. HOLLOWAY, ASSOCIATE ADMINISTRATOR FOR FINANCE AND INVESTMENT, AND BERNARD KULIK, DEPUTY ASSOCIATE ADMINISTRATOR, DISASTER ASSISTANCE DIVISION

Mr. SANDERS. Thank you, Mr. Chairman.

I appreciate your inviting me to participate in your legislative hearing on S. 628. This bill would make permanent the reforms adopted by Congress in Public Law 96-302, which substantially remove the SBA from agricultural disaster lending. Under current law, these reforms will expire on October 1 of this year.

Mr. Chairman, I wish to commend you for introducing this legislation, which is most important to achieving the goal of increased efficiency of the SBA's operation.

To indicate why this is so, I would like to begin with a few words of background. As the committee knows, in 1976 the Small Business Act was amended by Public Law 94-305 to require SBA to assist small business agricultural enterprises. This change in the law created programmatic and administrative problems because it authorizes duplicate benefits to farmers at SBA and the Department of Agriculture. It has also resulted in program abuses by recipients and excessive costs to the Federal Government because SBA employees were not experts in the administration of agricultural programs. The committee conducted an in-depth review of many of these abuses and is familiar with SBA's efforts to resolve many of the identified problems.

A partial, though temporary, solution to the problem was provided in Public Law 96-302, signed on July 2, 1980, which stipulated that agricultural enterprises would not be eligible for disaster loan assistance from SBA prior to October 1, 1983, unless they were declined for, or would be declined for emergency loan assistance at substantially similar interest rates from the Farmers Home Administration of the Department of Agriculture.

If this provision is triggered, by legislative or administrative action, or if the provision is simply allowed to expire on September 30, 1983, SBA would once again be forced into a complex and burdensome program where the agency has little expertise and where

previous experience resulted in substantial programmatic and administrative problems.

Amendments to the Small Business Act that have made agricultural enterprises eligible for SBA disaster and business loans have been defended on the grounds that such loans should be made available on equal terms to both farm and nonfarm businesses. All that the law does, according to this argument, is permit a farm businessman to avail himself of a disaster or a business loan at SBA, just like other small businessmen. This line of argument has an obvious first-blush appeal, but on review it should be rejected on several grounds:

First of all, farming is different from other businesses. There is a separate Department of Agriculture equipped with programs—real estate, operating, and emergency loans—and experts to do this job. In fact, USDA has about 110,000 employees while SBA has approximately 4,000 employees.

The Small Business Administration has neither the expertise nor the resources needed to conduct an agricultural disaster or agricultural business loan program. To acquire sufficient expertise would constitute duplication, waste, and mismanagement of scarce public resources.

The existence of duplicative programs at both SBA and Farmers Home Administration has caused many problems in the past, as set forth by SBA's Inspector General, in GAO reports, and through the investigation and hearings conducted by this committee.

Also, farmers already benefit from a broad array of Government programs that are not available to other small businesses.

Furthermore, to provide agricultural loans at both agencies would be to treat other businesses unfairly. Equitable treatment would dictate that if farmers are eligible at SBA, all nonfarm businesses should be eligible at Farmers Home Administration.

Mr. Chairman, nothing in my remarks should be construed to imply anything negative about agriculture or about the Farmers Home Administration. I simply mean to make the point that farm and nonfarm businesses are different and that we have separate and distinct agencies of Government to deal with each one.

For example, crop yields vary from year to year due to normal variations in the weather and other normal factors. Such ordinary variations must be taken into account when computing crop losses from disasters. As a result, the Farmers Home Administration requires a certain threshold—a minimum percentage of crop loss—before it will make an emergency loan available to farmers.

In contrast, in SBA's program, the concept of ordinary variation is absent, because our program comes into play when business property has been destroyed as a result of a flood, hurricane, volcanic eruption, or a similar type of physical disaster.

The Department of Agriculture has offices in almost every rural county in the United States, which are staffed by full-time farm experts. The Agriculture Department has agencies and programs designed for farmers, including the Farmers Home Administration, the Agricultural Stabilization and Conservation Service, the Federal crop insurance program, the Commodity Credit Corporation, the Soil Conservation Service, and many others. The SBA does not have anything like that.

Mr. Chairman, Congress, as well as the executive branch, has an interest in insuring that differences between Farmers Home Administration and SBA disaster and business loan programs are for legitimate purposes related to actual differences between farm and nonfarm business and do not discriminate unfairly between the two.

I believe that the best way to realize this goal is through continuing executive branch coordination and congressional oversight, but not through a statutory provision that forces an automatic uniformity both where it should and should not exist. If Congress has concerns about the responsiveness of either agency, the remedy is to improve that agency's performance, not to place an unreasonable burden upon the other agency.

It is for these reasons, Mr. Chairman, that SBA would prefer to see the enactment of S. 1202, which you have introduced by request. That bill would remove all responsibility from SBA for making business disaster loans to agricultural enterprises. SBA's authority to make disaster home and personal property loans to farmers would not be changed. The proposed legislation would also remove responsibility from SBA for making 7(a) business loans to agricultural enterprises. These changes would place sole responsibility for such lending with the Farmers Home Administration.

The basic issue, Mr. Chairman, is simple: Should SBA be in the business of making or guaranteeing loans to farmers? I think the answer is no. We have the Department of Agriculture, which is much larger than SBA, to do all of that.

An additional problem has recently arisen. Earlier this month the House Small Business Committee reported legislation, H.R. 3020, that would lower interest rates on business disaster loans to a maximum of 4 percent where the businesses cannot obtain credit elsewhere and to 8 percent where the businesses are able to obtain credit elsewhere.

If enacted, these provisions could cause interest rates at SBA to be substantially lower than those at the Farmers Home Administration. If this happens, then under current law SBA's doors would once again be wide open for agricultural disaster loans. I urge you to oppose these subsidized interest rates if H.R. 3020 goes to conference.

It is for all of these reasons, Mr. Chairman, that SBA would prefer S. 1202 over S. 628. I simply believe that SBA should be out of the agricultural lending business entirely. We should leave agricultural lending to the Department of Agriculture.

Mr. Chairman, this concludes my prepared remarks. I am ready for any questions you may have.

[The prepared statement of Mr. Sanders follows:]

SBA U.S. Small Business Administration Washington, DC 20416

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STATEMENT OF
JAMES C. SANDERS, ADMINISTRATOR
SMALL BUSINESS ADMINISTRATION
BEFORE THE
COMMITTEE ON SMALL BUSINESS
U. S. SENATE

JUNE 8, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

THANK YOU FOR INVITING ME TO PARTICIPATE IN YOUR LEGISLATIVE HEARING ON S. 628. THIS BILL WOULD MAKE PERMANENT THE REFORMS ADOPTED BY CONGRESS IN P.L. 96-302, WHICH SUBSTANTIALLY REMOVED THE SMALL BUSINESS ADMINISTRATION FROM AGRICULTURAL DISASTER LENDING. UNDER CURRENT LAW, THESE REFORMS WILL EXPIRE ON OCTOBER 1 OF THIS YEAR.

BACKGROUND

MR. CHAIRMAN, I WISH TO COMMEND YOU FOR INTRODUCING THIS LEGISLATION, WHICH IS IMPORTANT TO ACHIEVING MY GOAL OF INCREASING THE EFFICIENCY OF SBA'S OPERATIONS. TO INDICATE WHY THIS IS SO, I WOULD LIKE TO BEGIN WITH A FEW WORDS OF BACKGROUND.

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AS THE COMMITTEE KNOWS, IN 1976 THE SMALL BUSINESS ACT WAS AMENDED BY PUBLIC LAW 94-305 TO REQUIRE SBA TO ASSIST SMALL BUSINESS AGRICULTURAL ENTERPRISES. THIS CHANGE IN THE LAW CREATED PROGRAMMATIC AND ADMINISTRATIVE PROBLEMS BECAUSE IT AUTHORIZES DUPLICATE BENEFITS TO FARMERS AT SBA AND THE DEPARTMENT OF AGRICULTURE. IT HAS ALSO RESULTED IN PROGRAM ABUSES BY RECIPIENTS AND EXCESSIVE COSTS TO THE FEDERAL GOVERNMENT BECAUSE SBA EMPLOYEES WERE NOT EXPERTS IN THE ADMINISTRATION OF AGRICULTURAL PROGRAMS. THE COMMITTEE CONDUCTED AN IN-DEPTH REVIEW OF MANY OF THESE ABUSES AND IS FAMILIAR WITH SBA'S EFFORTS TO RESOLVE MANY OF THE IDENTIFIED PROBLEMS.

A PARTIAL THOUGH TEMPORARY SOLUTION TO THE PROBLEM WAS PROVIDED IN P.L. 96-302, SIGNED ON JULY 2, 1980, WHICH STIPULATED THAT AGRICULTURAL ENTERPRISES WOULD NOT BE ELIGIBLE FOR DISASTER LOAN ASSISTANCE FROM SBA PRIOR TO OCTOBER 1, 1983, UNLESS THEY WERE DECLINED FOR, OR WOULD BE DECLINED FOR EMERGENCY LOAN ASSISTANCE AT SUBSTANTIALLY SIMILAR INTEREST RATES FROM THE FARMERS HOME ADMINISTRATION (FMHA) OF THE DEPARTMENT OF AGRICULTURE.

IF THIS PROVISION IS TRIGGERED, BY LEGISLATIVE OR ADMINISTRATIVE ACTION, OR IF THE PROVISION IS SIMPLY

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ALLOWED TO EXPIRE ON SEPTEMBER 30, 1983, SBA WOULD ONCE AGAIN BE FORCED INTO A COMPLEX AND BURDENSOME PROGRAM WHERE THE AGENCY HAS LITTLE EXPERTISE AND WHERE PREVIOUS EXPERIENCE RESULTED IN SUBSTANTIAL PROGRAMMATIC AND ADMINISTRATIVE PROBLEMS.

REASONS WHY DUPLICATIVE POLICY SHOULD BE CHANGED

AMENDMENTS TO THE SMALL BUSINESS ACT THAT HAVE MADE AGRICULTURAL ENTERPRISES ELIGIBLE FOR SBA DISASTER AND BUSINESS LOANS HAVE BEEN DEFENDED ON THE GROUNDS THAT SUCH LOANS SHOULD BE MADE AVAILABLE ON EQUAL TERMS TO BOTH FARM AND NON-FARM BUSINESSES. ALL THAT THE LAW DOES, ACCORDING TO THIS ARGUMENT, IS PERMIT A FARM BUSINESSMAN TO AVAIL HIMSELF OF A DISASTER OR A BUSINESS LOAN AT SBA, JUST LIKE OTHER SMALL BUSINESSMEN. THIS LINE OF ARGUMENT HAS AN OBVIOUS FIRST-BLUSH APPEAL, BUT ON REVIEW SHOULD BE REJECTED ON SEVERAL GROUNDS:

- FARMING IS DIFFERENT FROM OTHER BUSINESSES. THERE IS A SEPARATE DEPARTMENT OF AGRICULTURE EQUIPPED WITH PROGRAMS -- REAL ESTATE, OPERATING AND EMERGENCY LOANS -- AND EXPERTS TO DO THIS JOB. IN FACT, USDA HAS ABOUT 110,000 EMPLOYEES

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AND SBA HAS APPROXIMATELY 4,000 EMPLOYEES. THERE ARE 2.4 MILLION FARMS IN THIS COUNTRY AND ROUGHLY 13 MILLION SMALL BUSINESSES.

- THE SMALL BUSINESS ADMINISTRATION HAS NEITHER THE EXPERTISE NOR THE RESOURCES NEEDED TO CONDUCT AN AGRICULTURAL DISASTER OR AGRICULTURAL BUSINESS LOAN PROGRAM. AND TO ACQUIRE SUFFICIENT EXPERTISE WOULD CONSTITUTE DUPLICATION, WASTE AND MISMANAGEMENT OF SCARCE PUBLIC RESOURCES.

- THE EXISTENCE OF DUPLICATIVE PROGRAMS AT BOTH SBA AND FMHA HAS CAUSED MANY PROBLEMS IN THE PAST, AS SET FORTH BY SBA'S INSPECTOR GENERAL, IN GAO REPORTS AND THROUGH THE INVESTIGATION AND HEARINGS CONDUCTED BY THIS COMMITTEE.

- FARMERS ALREADY BENEFIT FROM A BROAD ARRAY OF GOVERNMENT PROGRAMS THAT ARE NOT AVAILABLE TO OTHER SMALL BUSINESSES.

- TO PROVIDE AGRICULTURAL LOANS AT BOTH AGENCIES WOULD BE TO TREAT OTHER BUSINESSES UNFAIRLY. EQUITABLE TREATMENT WOULD DICTATE THAT IF FARMERS

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ARE ELIGIBLE AT SBA, ALL NON-FARM BUSINESSES SHOULD BE ELIGIBLE AT FMHA.

MR. CHAIRMAN, NOTHING IN MY REMARKS SHOULD BE CONSTRUED TO IMPLY ANYTHING NEGATIVE ABOUT AGRICULTURE OR ABOUT THE FARMERS HOME ADMINISTRATION. I SIMPLY MEAN TO MAKE THE POINT THAT FARM AND NON-FARM BUSINESSES ARE DIFFERENT AND THAT WE HAVE SEPARATE AND DISTINCT AGENCIES OF GOVERNMENT TO DEAL WITH EACH.

FOR EXAMPLE, CROP YIELDS VARY FROM YEAR TO YEAR DUE TO NORMAL VARIATIONS IN THE WEATHER AND OTHER NORMAL FACTORS. SUCH ORDINARY VARIATIONS MUST BE TAKEN INTO ACCOUNT WHEN COMPUTING CROP LOSSES FROM DISASTERS. AS A RESULT, THE FMHA REQUIRES A CERTAIN THRESHOLD -- A MINIMUM PERCENTAGE OF CROP LOSS -- BEFORE IT WILL MAKE AN EMERGENCY LOAN AVAILABLE TO FARMERS. IN CONTRAST, IN SBA'S PROGRAM, THE CONCEPT OF ORDINARY VARIATION IS ABSENT, BECAUSE OUR PROGRAM COMES INTO PLAY WHEN BUSINESS PROPERTY HAS BEEN DESTROYED AS A RESULT OF A FLOOD, HURRICANE, VOLCANIC ERUPTION, OR THE LIKE.

THE DEPARTMENT OF AGRICULTURE HAS OFFICES IN ALMOST EVERY RURAL COUNTY IN THE UNITED STATES, WHICH ARE STAFFED BY

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FULL-TIME FARM EXPERTS. THE AGRICULTURE DEPARTMENT HAS AGENCIES AND PROGRAMS DESIGNED FOR FARMERS -- INCLUDING THE FARMERS HOME ADMINISTRATION, THE AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE, THE FEDERAL CROP INSURANCE PROGRAM, THE COMMODITY CREDIT CORPORATION, THE SOIL CONSERVATION SERVICE, AND MANY OTHERS. THE SBA DOES NOT HAVE ANYTHING REMOTELY SIMILAR.

MR. CHAIRMAN, CONGRESS, AS WELL AS THE EXECUTIVE BRANCH, HAS AN INTEREST IN INSURING THAT DIFFERENCES BETWEEN FMHA AND SBA DISASTER AND BUSINESS LOAN PROGRAMS ARE FOR LEGITIMATE PURPOSES RELATED TO ACTUAL DIFFERENCES BETWEEN FARM AND NON-FARM BUSINESS, AND DO NOT DISCRIMINATE UNFAIRLY BETWEEN THE TWO. I BELIEVE THAT THE BEST WAY TO REALIZE THIS GOAL IS THROUGH CONTINUING EXECUTIVE BRANCH COORDINATION AND CONGRESSIONAL OVERSIGHT, BUT NOT THROUGH A STATUTORY PROVISION THAT FORCES AN AUTOMATIC UNIFORMITY BOTH WHERE IT SHOULD AND SHOULD NOT EXIST. IF CONGRESS HAS CONCERNS ABOUT THE RESPONSIVENESS OF EITHER AGENCY, THE REMEDY IS TO IMPROVE THAT AGENCY'S PERFORMANCE, NOT TO PLACE AN UNREASONABLE BURDEN UPON THE OTHER AGENCY.

S. 1202

IT IS FOR THESE REASONS, MR. CHAIRMAN, THAT SBA WOULD PREFER TO SEE THE ENACTMENT OF S. 1202, WHICH YOU HAVE INTRODUCED BY REQUEST. THAT BILL WOULD REMOVE ALL RESPONSIBLITY FROM SBA FOR MAKING BUSINESS DISASTER LOANS TO AGRICULTURAL ENTERPRISES. SBA'S AUTHORITY TO MAKE DISASTER HOME AND PERSONAL PROPERTY LOANS TO FARMERS WOULD NOT BE CHANGED. THE PROPOSED LEGISLATION WOULD ALSO REMOVE RESPONSIBILITY FROM SBA FOR MAKING 7(A) BUSINESS LOANS TO AGRICULTURAL ENTERPRISES. THESE CHANGES WOULD PLACE SOLE RESPONSIBILITY FOR SUCH LENDING WITH THE FARMERS HOME ADMINISTRATION (FMHA).

THE BASIC ISSUE, MR. CHAIRMAN, IS SIMPLE: SHOULD SBA BE IN THE BUSINESS OF MAKING OR GUARANTEEING LOANS TO FARMERS? I THINK THE ANSWER IS NO. WE HAVE THE DEPARTMENT OF AGRICULTURE -- WHICH IS MUCH LARGER THAN SBA -- TO DO THAT.

AN ADDITIONAL PROBLEM HAS RECENTLY ARISEN. EARLIER THIS MONTH THE HOUSE SMALL BUSINESS COMMITTEE REPORTED LEGISLATION (H.R. 3020) THAT WOULD LOWER INTEREST RATES ON BUSINESS DISASTER LOANS TO A MAXIMUM OF 4 PERCENT WHERE

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THE BUSINESS CANNOT OBTAIN CREDIT ELSEWHERE AND TO 8 PERCENT WHERE THE BUSINESS IS ABLE TO OBTAIN CREDIT ELSEWHERE. IF ENACTED, THESE PROVISIONS COULD CAUSE INTEREST RATES AT SBA TO BE SUBSTANTIALLY LOWER THAN THOSE AT FMHA. IF THIS HAPPENS, THEN UNDER CURRENT LAW SBA'S DOORS WOULD ONCE AGAIN BE WIDE OPEN FOR AGRICULTURAL DISASTER LOANS. I URGE YOU TO OPPOSE THESE SUBSIDIZED INTEREST RATES IF H.R. 3020 GOES TO CONFERENCE.

IT IS FOR ALL OF THESE REASONS, MR. CHAIRMAN, THAT SBA WOULD PREFER S. 1202 OVER S. 628. I SIMPLY BELIEVE THAT SBA SHOULD BE OUT OF THE AGRICULTURAL LENDING BUSINESS ENTIRELY. WE SHOULD LEAVE AGRICULTURAL LENDING TO THE DEPARTMENT OF AGRICULTURE.

MR. CHAIRMAN, THIS CONCLUDES MY PREPARED REMARKS. I AM READY FOR ANY QUESTIONS YOU MAY HAVE.

The CHAIRMAN. With regard to both disaster loans and business loans, what assistance is SBA currently providing to agricultural enterprises?

Mr. SANDERS. We have made something over 20 business farm loans in the past year, I believe it is, and we have also made something like 3 disaster loans, farm disaster loans, that is.

The CHAIRMAN. Why have you made any farm disaster loans to agricultural enterprises?

Mr. SANDERS. Actually, the number was two farm disaster loans. The reason that we did was that, even with substantially similar interest rates, SBA still has the authority to make loans to groups that are by definition ineligible at the Farmers Home Administration. These are such groups as aliens, corporations, partnerships, and cooperatives that are not primarily engaged in farming and farmowners who do not operate their farms.

The CHAIRMAN. Why have you made so few business loans to agricultural enterprises?

Mr. SANDERS. Because we have a memorandum of understanding, Mr. Chairman, between the SBA and the Farmers Home Administration. The farmers are encouraged to go to the Farmers Home Administration for business loans.

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The CHAIRMAN. If that is the case and it is working, why, then, do you need the additional provisions of S. 1202?

Mr. SANDERS. First, because actions such as the House Small Business Committee's reducing interest rates on the disaster loans could, if enacted, open the SBA's doors to farmers all over again. Second, there is simply no need for SBA to have this authority. The Agriculture Department has the facilities and the capacity to do the job. Nonfarms small businessmen are not eligible for Agriculture Department programs, and farmers should not be eligible for SBA's programs. We feel the whole troubled area of farm lending might be opened up again.

The CHAIRMAN. In September 1981, the committee conducted hearings on the farm disaster loan program. The Inspector General testified then that the program had lost millions of dollars due to waste, fraud, and mismanagement. As a result of the hearings, SBA formed a task force of 166 temporary help to review farm disaster loans in regions V, VI, and VII. I understand the task force conducted 6,510 reviews and identified nearly $12 million in loan funds that should not have been disbursed.

How much of these proceeds have been collected? What additional money do you anticipate collecting?

Mr. SANDERS. Mr. Chairman, the Associate Administrator for Finance and Investment, Mr. Holloway, has brought the statistics up to date, anticipating that you would want to continue your questioning in this area. So I would like him to give you those details.

Mr. HOLLOWAY. Mr. Chairman, there have been a little over $13 million of duplication that has been acknowledged by the borrowers concerned. We have so far collected about $2.77 million and have accelerated-term agreements for the collection of about $11,338,000 more. There are some additional duplications, possible duplications, where still negotiating with the farmers. The total universe of the problem would be in the neighborhood of $24 million. We have about $13 million where we have an acknowledgment on the part of the farmer that there was a duplication, and we have an additional $10 million or so where we are still negotiating with the farmer as to whether or not there was duplication of benefits.

The CHAIRMAN. My last question has nothing to do with the hearings on this bill, Mr. Administrator. Maybe you would like to give me your evaluation of the current situation as it relates to disaster loans, in light of the flood disasters that seem to be all over the country. Are we adequately funded? What is the nature of requests coming in? Maybe you could respond generally to this area as to whether we are going to need a supplemental appropriation. Where do we stand on this whole subject?

Mr. SANDERS. First of all, from all the information I have to date, I do not believe there is any current press or need for supplemental funds that we can anticipate.

I want to tell you that I am very gratified by the reorganization of the Disaster Lending Office. I think that they have in the past year demonstrated that the new organization has been much more responsive, much more professional. It is organized now into four national groups or cadres that respond immediately with supple-

mental help available that they can pull in to meet emergency needs.

I have been down to various of the disaster areas, both in the South and in the West as well, and as you know, in Connecticut last year. I have been impressed with the way that the new organization has responded and been on the scene.

I think our improvement in the area of coordination with FEMA has been demonstrated. I think currently we have a record number of small disasters that we are involved with, 14 I think today.

Mr. Kulik, who is head of our disaster operation, is with me today, on my right, and I am sure he can answer any detailed questions.

However, as I do follow this thing from one disaster to another, I am rather pleased with our responsiveness. I do not believe that we have any kind of press for funds or can anticipate any at this particular point.

The CHAIRMAN. We don't have anything from Utah or Louisiana, those places that seem to be rather hard hit by the recent rains?

Mr. KULIK. One important factor in Louisiana, Senator, is that this is in an area delineated as a special flood hazard area. It has a national flood insurance program, and a good many of the victims are covered by flood insurance, which protects us from larger exposure.

The CHAIRMAN. How about in Utah?

Mr. KULIK. In Utah the jury is still out. It is still flooding and mud is still sliding. As of this time we do not see any need for additional funds, but I cannot hazard a guess as to what will happen for the balance of the fiscal year.

The CHAIRMAN. Have we gotten any estimates at all as to what the damage is?

Mr. KULIK. In Utah?

The CHAIRMAN. Yes.

Mr. KULIK. Just preliminarily, based on what happened until then. At this point that is out of date. I have even received reports this morning of additional mud slides, and they expect further flooding and cresting within the next 10 days to 2 weeks.

Mr. SANDERS. We are concerned about the melt in the snow pack, both in the Rockies and the Sierras, as it comes down into the San Joaquin Valley. It is a record snow pack in the Sierras this year. With hot weather, it could really create some big problems. We are watching it closely.

In those areas, particularly in Utah, very much unlike the Mississippi Delta where they are used to getting flooded out, the flooding was quite unexpected. And you have the other problem—the people along the Mississippi flood basin—they keep moving back and keep getting flooded out, and then back they go. It is a problem.

The CHAIRMAN. My good friend Senator Pressler is here.

Senator Pressler, do you have any questions?

STATEMENT OF HON. LARRY PRESSLER, A U.S. SENATOR FROM THE STATE OF SOUTH DAKOTA

Senator PRESSLER. First of all, let me commend Chairman Weicker for holding this hearing to look into the removal of the Small Business Administration from agricultural disaster lending.

I am well aware of some of the abuses that have occurred in the past. The fine work of this committee uncovered a serious record of abuses in SBA's farm disaster loan program. As the expiration date for ending this program approaches, I think it is important that we once again look at this problem.

I am a strong advocate of reducing waste and abuse in Federal Government programs, but I also have very strong concern for the welfare and future of many of our Nation's family farmers. As chairman of the Family Farm Subcommittee of this committee, I am well aware of the fact that American agriculture is suffering through some very difficult financial times.

Farm income has declined in recent years while farm debts continue to increase. In 1982 the debt-to-asset ratio for farmers reached its highest level since 1941. The decline in farm income and increase in expenses have put many farmers in a perilous position. These farmers are currently operating on a year-to-year basis. For this reason, it is vital that farmers have some type of safety net to fall back in case of disaster.

My concern, therefore, is not who administers the farm disaster loan program, but rather that it is administered well with adequate funding and adequate personnel to insure that farmers receive this much needed assistance.

As I understand it, in my State, several million dollars in duplication of benefits have been paid out as farm disaster loans and that some farmers have received funds from two agencies. Has that investigation now been completed? Are we almost at the end of that period?

Mr. SANDERS. Senator, Mr. Holloway was just testifying as to the number of loans that were involved——

Senator PRESSLER. I am sorry. If this area has been covered, you do not have to cover it again.

The CHAIRMAN. I think you would like to hear from Mr. Holloway because, quite frankly, I think they are doing a very good job in this area.

Why don't you respond to Senator Pressler as you did to me?

Senator PRESSLER. If it is duplication, I will read it in the record.

The CHAIRMAN. It is short.

Mr. HOLLOWAY. We have identified, primarily in the Southeast where most of the duplications occurred, about 13 million dollars' worth of cases where the farmer has acknowledged that there was duplication of benefits. We have an additional $10 million or so where we are still negotiating and discussing with the farmer whether or not there was a duplication of benefits. We have recovered about $2,772,000 in cash from acknowledged duplication of benefits and have received accelerated repayment agreements from farmers for about $11,338,000.

I know in region VIII, your part of the country, they are a little behind the Southeast and region VI, the Dallas region, in terms of

attacking this problem. There is movement in your area now in the duplication of benefits issue.

Senator PRESSLER. The people who took these loans, did they actually think they were entitled to two forms of assistance or did they do this under attempt to defraud the Government, in your judgment?

Mr. HOLLOWAY. There was a lot of confusion. For example, there were some small grant programs running from as low as $400 grants to, on the average, around $4,000 grants, and some even higher. A farmer would get, say, $3,000 as a grant from Farmers Home, and then come to us with a $100,000 loss and we really should have loaned him $97,000 at that point, since he had gotten the other $3,000. In the press of the activities at the time, he got $100,000, which constituted a duplication of benefits. Most of it is that type of thing.

There were some instances of conscious, intentional misrepresentation or fraud in applying and closing on loans at both agencies, and those have been referred to the Inspector General and the Department of Justice.

Senator PRESSLER. I would like to clarify one point. In removing agricultural enterprises from eligibility for disaster loans, this Nation's agribusiness will not be affected; is that correct?

Mr. HOLLOWAY. In our opinion, the Nation's agribusiness will be better accommodated by specialized handling of the needs of the farmer at the Department of Agriculture and specialized handling of nonfarm business needs at the Small Business Administration.

Senator PRESSLER. Tomorrow in this committee we are holding a hearing on the effect of the PIK program, payment in kind, on small business in "Main Street" America, particular on the fertilizer industry and the implement industry.

It is somewhat ironic—never in the history of mankind have we had such an effort not to grow food as we have in the United States today. We will be looking at what impact this has had on the economy in general and what impact it has had on job creation, and so forth.

Do you think from the Small Business Administration's point of view that there are going to be some Main Street businesses going under or coming to you for help because of the PIK program?

Mr. SANDERS. Senator, we discussed this, in anticipation that there might be some impact from the PIK program. We discussed it with officials of the Department of Agriculture and discussed the feasibility of making some kind of special program. We finally decided that the best way to handle this was under the standard loan programs we have at the SBA which are available to all these people. We sent special memorandums to all of our district and branch offices urging their extra consideration and indulgence for those people in agribusiness that might be impacted this year by a reduction in sales. We also anticipated there might be, with the new cash in the farmers' hands, some reduction of accounts receivable for these people, too. Both possibilities exist. However, we were aware of that.

Senator PRESSLER. My final question is: Has the Small Business Administration received complaints from farmers about SBA's re-

moval from farm disaster lending? Do you find that farmers expect to be covered by the SBA?

Mr. SANDERS. I would tend to agree with you, Senator. Of course, when a farmer or anybody else is out there scratching for money, they will take it wherever they can get it. It does not make much difference to them. However, I agree, I think the agricultural community as a whole expects the Department of Agriculture, with all of its facilities, to provide the service.

Senator PRESSLER. But have you had complaints from farmers about SBA's removal from farm disaster lending?

Mr. SANDERS. I have not had any. I have only had a complaint from a Congressman or two.

Senator PRESSLER. OK. We are the only complainers?

Mr. SANDERS. The other side of the House.

Senator PRESSLER. Thank you very much.

The CHAIRMAN. Thank you very much, Jim. I have no further questions.

The record will be left open in case there are those Senators who may have questions for the record.

[Subsequent information was received and follows:]

U.S. SMALL BUSINESS ADMINISTRATION,
Washington, D.C., July 6, 1983.

Hon. SAM NUNN,
Ranking Minority Member,
Committee on Small Business,
U.S. Senate, Washington, D.C.

DEAR SENATOR NUNN: This is in reference to your letter of June 9, 1983, requesting the Small Business Administration to respond to questions relative to the June 8th hearing on farm disaster lending.

Enclosed you will find our response to your questions.

I am sorry you were not able to attend the hearing but I do appreciate your continued interest in the SBA and its programs.

Yours truly,

JAMES C. SANDERS,
Administrator.

Enclosures.

QUESTIONS FOR FARM DISASTER HEARING JUNE 8, 1983

Question 1. When the Small Business Administration makes a disaster declaration, what instructions are being given to farmers who come in for assistance? Are the SBA disaster offices making it clear that the farmer must first seek eligibility at the Farmers Home Administration, but that if they are denied assistance from FmHA they may be eligible for assistance at SBA?

Answer. When the Small Business Administration makes a disaster declaration a notice is published in the Federal Register which states in part ". . . It should be noted that assistance for agricultural enterprises is the primary responsibility of the Farmers Home Administration. . . ." Farmers who inquire about assistance from SBA are also told this. Additionally, they are told that SBA must receive a letter or referral from FmHA stating that the applicant does not qualify for eligibility at FmHA before their application can be accepted for processing.

Question 2. Are these farmers being asked if they are seeking assistance for crop production related damage when they first come to SBA before SBA makes the referral to the FmHA?

Answer. Yes. As part of the Agency's initial interviewing and screening process this question is posed and answered.

Question 3. Can there be eligibility at SBA for any type of disaster assistance by any person, homeowner or business without a specific SBA disaster declaration?

Answer. Generaly the answer is no, however there are three instances where economic injury disaster assistance is available without a declaration. The first is when the Secretary of Agriculture, under his own authority, designates a county or coun-

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ties as eligible for emergency loan assistance through the Farmers Home Administration. When this happens the Small Business Administration makes its Economic Injury Disaster Loan Program available in the same counties for those non-farm small busineses who have suffered economic injury as a direct result of the event which triggered the Secretay's designation. The second instance is pursuant to 7(b)(2)(D) as a result of a governor's certification that at least five small businesses have suffered economic injury as a direct result of a disaster, are in need of financial assistance and that such assistance is not otherwise available to them on reasonable terms. The Administrator makes economic injury loans available to small business in the designated areas.

The third instance has never been utilized because it is an unfunded provision of our law which calls for economic injury assistance to be made available as a direct result of "Federal Action".

Question 4. Regardless of your intention to do so, under present law does SBA have the legal authority to make a declaration for a crop related disaster? Would the result be different under the definition of a disaster in your May 27th proposed rules?

Answer. Yes, SBA does have the legal authority. The authority will remain the same under the proposed regulations but the definition of disaster in the proposed regulations would preclude drought declarations.

Question 5. Since July 3, 1980, has SBA made any disaster declarations for crop related disasters? Please provide a list, by date and declaration number, of each declaration.

Answer. Yes, but only for those disasters with incident dates preceding July 3, 1980. See attached list (Exhibit A).

Question 6. Since July 3, 1980, how many referrals from the Farmers Home Administration have been received by the Small Business Administration?

Answer. It would be impossible to determine because the Agency does not and has not maintained a record of referrals from the Farmers Home Administration.

Question 7. Since July 3, 1980, how many crop production loans has SBA made to farmers? For each, please provide the disaster declaration, the date of the loan, the amount of the loan, the state in which the loan was made and the nature of the use of proceeds.

Answer. Exhibit B [1] contains the answers to your question except for use of proceeds for each loan. Use of proceeds information is not centrally maintained and each and every loan case file would have to be reviewed in order to answer your question.

Question 8. Since July 3, 1980, how many business loans (direct or guaranteed have been made to farmers for farm related purposes?

Answer. The figures are readily available by fiscal year only.

During fiscal year 1981—165 Business loans to farmers were made.

During fiscal year 1982—22 Business loans to farmers were made.

During the first 6 months of fiscal year 1983—21 Business loans to farmers were made.

Support for S. 1202

Question 1. You indicate in your statement that FmHA supports the provisions of S. 1202, and then go on to indicate in two separate places in your testimony that farmers should seek disaster assistance and loans from FmHA. Are those the only types of programs which are duplicative between the Small Business Administration and the Farmers Home Administration that you believe should not be permitted to continue?

Answer. We believe that virtually all duplications in Federal programs should be eliminated. In addition to the particular duplications mentioned in your question, there are other somewhat duplicative programs such as the Business and Industry Loan Program of the Farmers Home Administration where there may be some overlap that could be focused on at an appropriate time.

Question 2. Are there any programs at SBA that you believe farmers should be able to continue to participate in?

Answer. We are unaware of any specific programs which SBA administers that are unique and merit special consideration for farmers. In fact farmers have shown little or no interest in SBA programs other than financing. We would be remiss however not to point out that farmers, just like any other homeowner will still be eligible for personal property and home loans.

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[1] Exhibit B has been retained in committee files.

Question 3. Would your support of S. 1202 be limited to only those programs that are duplicative of the programs at the Farmers Home Administration or would you recommend SBA be outright statutorily denied the opportunity to assist farmers for any purpose?

Answer. We wholeheartedly recommend that SBA be statutorily removed from agricultural financial assistance programs. We believe the Agency should revert to its farm policy prior to the passage of Public Law 94-305.

[Exhibit A]

Date	Declaration Number and State	Date	Declaration Number and State
July 3, 1980	1866—North Dakota	Sept. 5, 1980	1916—Missouri
July 17, 1980	1867—Illinois	Sept. 16, 1980	1920—Indiana
July 14, 1980	1869—Indiana	Oct. 7, 1980	1925—Oklahoma
Do	1871—Kansas	Oct. 9, 1980	1926—Nebraska
Do	1872—Washington	Apr. 26, 1980	1927—Kansas
July 17, 1980	1877—Missouri	Sept. 22, 1980	1928—Florida
July 24, 1980	1878—Nebraska	Sept. 18, 1980	1929—South Carolina
July 17, 1980	1979—Arkansas	Sept. 22, 1980	1932—Alabama
July 28, 1980	1881—Oklahoma	Oct. 6, 1980	1936—Louisiana
Aug. 1, 1980	1886—Illinois	Do	1941—North Carolina
Aug. 5, 1980	1889—Montana	Oct. 27, 1980	1942—Mississippi
Aug. 8, 1980	1897—Iowa	Oct. 21, 1980	1944—Georgia
Aug. 12, 1980	1900—Texas	Oct. 30, 1980	1949—Kentucky
Sept. 5, 1980	1905—Virginia	Nov. 24, 1980	1952—Nebraska
Do	1911—Minnesota	Dec. 5, 1980	1958—New Mexico
Sept. 23, 1980	1915—Tennessee	Dec. 30, 1980	1965—Iowa

APPENDIX 4

(See Appendix 10—Blocks 11, 37 and 43)

STATE CODES

State code	Alpha abbrev	State	State code	Alpha abbrev	State
01	AL	Alabama	31	NE	Nebraska
02	AK	Alaska	32	NV	Nevada
04	AZ	Arizona	33	NH	New Hampshire
05	AR	Arkansas	34	NJ	New Jersey
06	CA	California	35	NM	New Mexico
08	CO	Colorado	35	NY	New York
09	CT	Connecticut	37	NC	North Carolina
10	DE	Delaware	38	ND	North Dakota
11	DC	District of Columbia	39	OH	Ohio
12	FL	Florida	40	OK	Oklahoma
13	GA	Georgia	41	OR	Oregon
15	HI	Hawaii	42	PA	Pennsylvania
16	ID	Idaho	44	RI	Rhode Island
17	IL	Illinois	45	SC	South Carolina
18	IN	Indiana	46	SD	South Dakota
19	IA	Iowa	47	IN	Tennessee
20	KS	Kansas	48	TX	Texas
21	KY	Kentucky	49	UT	Utah
22	LA	Louisiana	50	VT	Vermont
23	ME	Maine	51	VA	Virginia
24	MD	Maryland	53	WA	Washington
25	MA	Massachusetts	54	WV	West Virginia
26	MI	Michigan	55	WI	Wisconsin
27	MN	Minnesota	56	WY	Wyoming
28	MS	Mississippi	66	GU	Guam
29	MO	Missouri	72	PR	Puerto Rico

STATE CODES—Continued

State code	Alpha abbrev	State	State code	Alpha abbrev	State
30	MT	Montana	75	TQ	Trust Territory of the Pacific Islands
			78	VI	Virgin Islands
			60	AQ	American Samoa

The CHAIRMAN. Thank you very much.

Mr. SANDERS. Thank you, sir.

The CHAIRMAN. The next witness is Mr. Charles Shuman, the Administrator of the Farmers Home Administration.

Mr. Shuman, your statement in its entirety will be included in the record. You may proceed in any way that you deem fit.

It is nice to have you before the committee.

STATEMENT OF HON. CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, WASHINGTON, D.C.

Mr. SHUMAN. Thank you very much, Mr. Chairman and members of the committee.

We appreciate the opportunity to discuss the situation in agricultural emergency disaster lending as it affects the Farmers Home Administration and the Small Business Administration, and to reaffirm our support for the administration's bill, S. 1202, which would remove all responsibility from SBA for making disaster loans to agricultural enterprises.

First, to address the committee's specific questions contained in your letter to me of May 26:

We believe that the changes contained in Public Law 96-302, and subsequently reinforced by the Omnibus Reconciliation Act of 1981, which was Public Law 97-35, were sound and should be continued, which is provided for in S. 628. Essentially, provisions of the former two acts insured that farmers would receive weather disaster emergency loan assistance primarily from the Farmers Home Administration.

Provisions of these acts have eliminated a great deal of confusion and public criticism engendered by the old system, under which agricultural enterprises afflicted with weather disaster could, in effect, shop for loan assistance between the two Federal agencies. Each agency utilized differing criteria to determine what constitutes a disaster, differing loan-making and servicing regulations, and, for some period, different timeframes and different interest rates.

As to the present situation, we believe there are compelling reasons to make Farmers Home Administration the primary Federal lender in the agricultural area, both in weather disaster and nonemergency situations.

In the first place, we have a delivery system that is in place and serving every rural county through some 2,300 county, district, and State offices. In contrast, as Administrator Sanders pointed out, SBA is organized for different purposes with fewer than 100 offices, and those are located primarily in urban areas. In other words, no

matter where a need arises, a permanent, staffed Farmers Home Administration office is available.

Then, again, reaffirming what Administrator Sanders said, the technical expertise is available at Farmers Home Administration. The vast majority of our county supervisors have degrees in agriculture. Their business is making agricultural loans, whether for purposes of farm ownership, farm operating expenses, or recovery from disaster. These people are backed by trained farm chiefs in each of the 46 State offices and a section in our national office here in Washington, which is specifically responsible for farm emergency loans.

Finally, determination of loss: Since the 1970's, when the disaster program underwent a rapid rise in lending, and since September 26, 1980, when a memorandum of understanding between Farmers Home Administration and the Small Business Administration delineated the present system, numerous changes have been made to strengthen the designation process. It now starts at the county level with close cooperation between the Farmers Home Administration and the Agricultural Stabilization and Conservation Service (ASCS), which maintains the historic crop yield records necessary to determine extent of damage and eligibility for aid.

It would seem logical and proper that the determination of agricultural losses be a responsibility of agencies whose expertise is centered on agriculture. This process, we believe, can best be maintained by the present Farmers Home Administration-ASCS system, which utilizes permanent, on-site agricultural personnel and offices, very often sharing space in the same location.

In summary, Mr. Chairman, we endorse the objectives of the bill, S. 628, but we concur with the Small Business Administration in recommending the more comprehensive bill, S. 1202, which would relieve SBA of all responsibility for agricultural lending, whether in emergency or nonemergency situations.

Mr. Chairman, this concludes our prepared statement. I would be happy to provide information by answering any questions you may have at this time.

[The prepared statement of Mr. Shuman follows:]

STATEMENT OF HON. CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION, WASHINGTON, D.C.

Mr. Chairman, members of the Committee we appreciate this opportunity to discuss the situation in agricultural emergency disaster lending as it affects Farmers Home Administrations and the Small Business Administration, and to reaffirm our support for the Administration's bill, S. 1202, which would remove all responsibility from SBA for making disaster loans to agricultural enterprises.

First, to address the Committee's specific questions contained in your letter to me of May 26, Mr. Chairman:

We believe that the changes contained in P.L. 96-302, and subsequently reinforced by the Omnibus Reconciliation Act of 1981, P.L. 97-35, were sound and should be continued, which is provided for in S. 628. Essentially, provisions of the former two Acts ensured that farmers would receive weather disaster emergency loan assistance primarily from the Farmers Home Administration.

Provisions of these acts have eliminated a great deal of confusion and public criticism engendered by the old system, under which agricultural enterprises afflicted with weather disaster could "shop" for loan assistance between to Federal agencies. Each agency utilized differing criteria to determine what constitutes a disaster, differing loan-making and servicing regulations, and, for some period, differing interest rates.

As to the present situation, we believe there are compelling reasons to make Farmers Home Administration the primary Federal lender in the agricultural area, both in weather disaster and non-emergency situations:

1. Delivery system.—The Farmers Home Administration delivery system is "in place," serving every rural county through some 2,300 county, district and state offices. In contrast, SBA is organized for different purposes with fewer than 100 offices, and those are located primarily in urban areas. In other words, no matter where a need arises, a permanent, staffed Farmers Home office is available.

2. Technical expertise.—The vast majority of Farmers Home Administration county supervisors have degrees in agriculture. Their business is making agricultural loans whether for purposes of farm ownership, farm operating expenses, or recovery from disaster. They are backed by trained farm chiefs in each of 46 state offices and a section in the national office specifically responsible for farm emergency loans.

3. Determination of loss.—Since the 1970's, when the disaster program underwent a rapid rise in lending, and since Septermber 26, 1980, when a Memorandum of Understanding between FmHA and SBA delineated the present system, numerous changes have been made to strengthen the designation process. It now starts at the county level with close cooperation between the Farmers Home Administration and the Agricultural Stabilization and Conservation Service (ASCS), which maintains the historic crop yield records necessary to determine extent of damage and eligibility for aid. It seems logical and proper that the determination of agricultural losses be a responsibility of agencies whose expertise is centered on agriculture. This process, we believe, can best be maintained by the present FmHA-ASCS system, which utilizes permanent, on-site agricultural personnel and offices, very often sharing space in the same location.

In summary, we endorse the objectives of the bill S. 628, but we concur with the Small Business Administration in recommending the more comprehensive bill S. 1202, which would relieve SBA of all responsibility for agricultural lending, whether in emergency or non-emergency situations.

Mr. Chairman, this concludes our prepared statement. I will be happy to attempt to answer any questions you may have.

The CHAIRMAN. Senator Pressler.

Senator PRESSLER. Thank you, Mr. Chairman.

Mr. Shuman, during the last 2 years, has there been an increase in FmHA disaster loan funds to pick up the slack from SBA? As SBA has turned these things over to you, have you had increases in funding or personnel? Have there been problems in covering the waterfront in terms of getting your work done?

Incidentally, I might say that I think your staff in my State does a very good job. I have never been in the business of picking on Federal civil servants. Some people are. In fact, I wrote a lot of our civil servants in my State a letter telling them I thought they were doing a good job, especially in the ASCS offices and FmHA offices. They handle a large volume of work very politely. I know that civil servants are picked on a lot. In some of these field offices they work very hard.

In any event, have you been hurt by the additional work from the loans?

Mr. SHUMAN. Senator, let me say that I appreciate your support of our local operations in your State. I really appreciate the message that you have sent.

First, as far as the increase in our lending activity is concerned, since the time that the memorandum of understanding went into agreement, from 1977 through 1980 our emergency loan lending ranged in size from $1,178 to $3,411 billion. In 1981, we lent $5,112,290 million, in 1982, we lent $2,173 billion. Therefore, there has been an increase. However, a lot of that increase, would be due to the disasters and the low crop yields that occurred in 1980. There has been a definite increase in our activity.

As far as the number of personnel at the agency, we have been fortunate in being able to add recently some increased staffing to the Farmers Home Administration county offices, but I would be the last to say that we have enough people to do the job that the Congress and the agricultural community require. We are still working toward staffing at the levels that we think are appropriate and prudent.

There have been some workload problems associated with it, but I think that this increase is no more substantial than the increases in workload from other initiatives that we have undertaken. In fact, many of the farmers that we make emergency loans to already have outstanding credit with us through some of our regular programs.

Senator PRESSLER. Who is taking the lead on the investigation into the duplication of benefits? Is FmHA or SBA taking the lead on that?

Mr. SHUMAN. If you are referring back to your previous inquiry of Administrator Sanders, SBA has taken the lead in that, and we are following up and cooperating with them and their investigation. We are providing them with information.

Senator PRESSLER. Will farmers who have been found to have accepted loans from both SBA and FmHA lose eligibility for future loans from FmHA?

Mr. SHUMAN. The only way that any loss of eligibility would occur would be if there was some type of conscious misrepresentation or some type of activity that would be construed to be criminal in nature.

Senator PRESSLER. That has not been found very often?

Mr. SHUMAN. No, that has not been a problem.

Senator PRESSLER. Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you very much, Senator Pressler.

The administration's bill, S. 1202, would not only take SBA out of farm disaster lending, but it would also not permit SBA to make business loans to agricultural enterprises "and all other farming and agricultural-related industries." What does "all other farming and agricultural-related industries" include?

Mr. SHUMAN. Mr. Chairman, I am not an expert in that particular statute and was not involved in drafting it. However, I would interpret that to mean any type of farming or agricultural production—production of agricultural commodities. I would assume that that would mean that the Small Business Administration would still be able to provide credit to service-type businesses and industries that support farming ventures.

The CHAIRMAN. Somebody that goes ahead and sells farm machinery—do you think they would be eligible?

Mr. SHUMAN. My reading of that would indicate to me that SBA would be able to make that kind of credit available.

The CHAIRMAN. If we decided to go the route of S. 1202, do you think maybe a little additional draftsmanship might be of assistance in the legislation?

Mr. SHUMAN. Again, Mr. Chairman, I am not an expert in that area, and so I would have to refer that to some more qualified individuals.

The CHAIRMAN. I have no further questions. The record will remain open in case there are Senators who have questions for a response to the record.

If anybody else wants to say anything, speak now or forever hold your peace.

With that, the meeting is adjourned.

[Whereupon, at 10:12 a.m., the committee recessed, to reconvene at the call of the Chair.]

[Subsequent information was received and follows:]

U.S. DEPARTMENT OF AGRICULTURE,
FARMERS HOME ADMINISTRATION,
Washington, D.C., July 1, 1983.

Hon. SAM NUNN,
U.S. Senator,
Washington, D.C.

DEAR SENATOR NUNN: Enclosed is a copy of Farmers Home Administration's response to the questions for which you requested answers concering the Farm Disaster Hearing conducted June 8, 1983.

Sincerely,

CHARLES W. SHUMAN
(for Administrator).

Enclosure.

QUESTIONS FOR FARM DISASTER HEARING JUNE 8, 1983, AS REQUESTED BY SENATOR NUNN

Question 1. What categories of applicants for assistance for emergency loans for crop related disasters would not be eligible at FmHA?

Answer. Those applicants who would be ineligible for emergency (EM) loan are: 1. Non Citizens. 2. Corporations, Cooperatives or Partnerships not primarily engaged in farming. 3. Farm owners who do not operate their farms.

Question 2. If FmHA made a crop disaster declaration, and a farmer is denied eligibility at FmHA, what action, if any, would the county FmHA office take in terms of a referral to SBA?

Answer. The FmHA County Office refers by letter, those ineligible applicants outlined in the answer to question number 1. Ineligible applicants who do not possess repayment ability or who have sustained disaster losses insufficient to meet minimum loss criteria are not referred to SBA.

Question 3. At FmHA, how many declarations for crop-related disasters have been made for disasters commencing on or after July 3, 1980?

Answer. Since July 3, 1980 there have been 416 designations covering 2,995 counties or similar governmental bodies through June 22, 1983.

Question 4. Of those disaster declarations, how many applicants have been approved for assistance?

Answer. The following number of applicants have been approved for EM loan assistance:

Fiscal year:	
1981	138,990
1982	42,863
(June 17, 1983)	8,074

Question 5. Of those declarations, how many applicants have been denied assistance at FmHA?

Answer. The following number of EM loan applicants have been denied assistance at FmHA:

Fiscal year:	
1981	8,955
1982	9,757
(May 31, 1983)	1,471

Question 6. Of those applicants denied assistance, how many have been referred to the Small Business Administration as required by P.L. 96-302 and P.L. 97-35?

Answer. The FmHA does not maintain any records of referrals to SBA. However, FmHA County Office personnel are cognizant of the Memorandum of Understand-

ing Between the Small Business Administration (SBA) and the United States Department of Agriculture—Farmers Home Administration, and would have referred those ineligible applicant's who are outlined in the answer to question 1.

Question 7. Where have the FmHA referrals been made? To the SBA disaster office? To the SBA district office? To the SBA central office?

Answer. County officers of FmHA refer ineligible applicants as outlined in the answer to question 1 to the SBA office that has jurisdiction for the county that has been designated for EM loan assistance.

Question 8. How have the referrals been made? By letter? By phone calls? By instruction to the FmHA ineligible borrower?

Answer. Referrals are by letter.

Question 9. In your judgment, if FmHA made a crop disaster declaration, and a farmer is denied eligibility at FmHA for that disaster for crop related damage, under public law, would that farmer have eligibility at SBA for assistance if the terms and conditions are "substantially similar"?

Answer. Applicant farmers as defined in FmHA EM Regulations, which excludes those applicants listed in the answer to question 1, who are denied EM loan assistance by FmHA, will not be referred to SBA.

SUPPORT FOR S. 1202

Question 1. You indicate in your statement that FmHA supports the provisions of S.1202, and then go on to indicate in two separate places in your testimony that farmers should seek disaster assistance and loans from FmHA. Are those the only types of programs which are duplicative between the Small Business Administration and the Farmers Home Administration that you believe should not be permitted to continue?

Answer. All disaster assistance to farmers as defined by FmHA regulations should be obtained from FmHA when the loss or damage was to farm property and/or crop production.

Question 2. Are there any programs at SBA that you believe farmers should be able to continue to participate in?

Answer. Farmers who reside in towns or cities should continue to be able to obtain disaster housing assistance from SBA to repair or replace their dwellings that have been damaged or destroyed by natural disasters.

Question 3. Would your support of S. 1202 be limited to only those programs that are duplicative of the programs at the Farmers Home Administration, or would you recommend that SBA be outright statutorily denied the opportunity to assist farmers for any purpose?

Answer. The FmHA recommends that the statues be amended to provide that farmers as defined by FmHA Regulations, obtain all of their loan assistance from FmHA, except disaster housing assistance for those farmers who reside in towns or cities.

○